

BOEHM, KURTZ & LOWRY

ATTORNEYS AT LAW
36 EAST SEVENTH STREET
SUITE 1510
CINCINNATI, OHIO 45202
TELEPHONE (513) 421-2255
TELECOPIER (513) 421-2764

Via Overnight Mail

April 24, 2008

RECEIVED

APR 25 2008

PUBLIC SERVICE
COMMISSION

Stephanie Stumbo, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

Re: Case No. 2006-00472

Dear Ms. Stumbo:

Please find enclosed the original and twelve (12) copies each of the RESPONSE OF THE KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC. TO REHEARING DATA REQUEST OF COMMISSION STAFF in the above-referenced matter. By copy of this letter, all parties listed on the Certificate of Service have been served.

Please place this document of file.

Very Truly Yours,



Michael L. Kurtz, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

cc: Certificate of Service

CERTIFICATE OF SERVICE

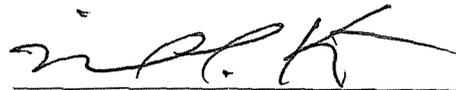
I hereby certify that a copy of the foregoing was served by mailing a true and correct copy, by overnight mail to all parties on the 24th day of April, 2008.

Lawrence W Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

Greg Howard
Appalachian Citizens Law Center, Inc
207 West Court Street, Suite 202
Prestonsburg, KY 41653

Honorable Charles A. Lile
Senior Corporate Counsel
East Kentucky Power Cooperative, Inc.
4775 Lexington Road
P. O. Box 707
Winchester, KY 40392-0707

Stephen A Sanders
Appalachian Citizens Law Center, Inc
52 Broadway, Ste B
Whitesburg, KY 41858



Michael L. Kurtz, Esq.

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: General Adjustment of
Electric Rates of East Kentucky Power
Cooperative, Inc.

Case No. 2006-00472

RECEIVED

APR 25 2008

PUBLIC SERVICE
COMMISSION

RESPONSES OF THE
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
TO REHEARING DATA REQUEST OF COMMISSION STAFF

REQUEST NO. 2. Throughout his Supplemental Direct Testimony, Mr. Higgins states that EKPC's rate increase was driven by the need for EKPC to build equity. Generally, base rate cases reflect the need to raise revenues to cover operating expenses and the need to build equity. Other than the urgency present in EKPC's case, explain what made EKPC's base rate case different from any other base rate case filed with the Commission.

RESPONSE:

This proceeding was distinguished by the Commission's determination to allow EKPC to increase its TIER to 1.35 from the previously-approved TIER of 1.15. [For the determination of the previously-approved TIER see Case No. 1994-00336, Order at 19. A TIER of 1.15 was also used in EKPC's initial ECR proceeding, Case No. 2004-00321.] In approving a TIER of 1.35, the Commission cited EKPC's current financial condition and EKPC's need to comply with the requirements of the RUS mortgage agreement and the unsecured credit facility [Order at 34-35]. The Commission's approval of a higher TIER represents an allowed build up in equity for EKPC that is distinct from ensuring that EKPC is able to recover its operating expenses. Had EKPC's approved TIER remained at 1.15, then EKPC would have been able to recover its allowed operating expenses at a revenue requirement that was \$18.6 million less than what was approved by the Commission. [See direct testimony of KIUC witness Lane Kollen at 7]. Consequently, 98 percent of the approved \$19.0 million revenue increase [\$18.6/\$19.0] is attributable to increasing EKPC's approved TIER from 1.15 to 1.35, and thus, is directly related to meeting EKPC's need to build equity. This situation is distinguishable from other rate proceedings in which an increase in operating expenses causes the need for a rate increase in order to maintain the previously-approved TIER.

Case No. 2006-00472

In addition, the need to build equity was strongly emphasized by EKPC in its filed case. For example, EKPC witness David G. Eames testified that EKPC's equity as a percentage of its assets had fallen from 13.71% at end of 2002 to just 4.87% at the end of the test year ending September 30, 2006. He further testified that:

A strong equity position is necessary for EKPC to meet its mortgage covenants and to be able to obtain future financing. EKPC expects the need for credit facility financing through 2019 for its capital expansion program. Having the appropriate amount of equity will significantly reduce the cost of future borrowings. [Direct testimony of David G. Eames, p. 5, lines 4-8.]

Further, in its Order granting interim relief, the Commission concluded that it was necessary to increase rates to address EKPC's credit impairment. The Commission noted that but for the willingness of RUS to forbear from making any declaration of default its mortgage agreement, EKPC would be in default. [Interim Order at p. 8]